

CHALLENGES FACING NIGERIAN LOCAL CONTENT IN OIL AND GAS INDUSTRY.

Omenikolo, I.A. And Amadi, R.O.

Department of Physics/Electronics, Federal Polytechnic Nekede, Owerri.

ABSTRACT

The petroleum industry in Nigeria is the largest industry and mean generator of Gross Domestic product (GDP) in the West African Nation. In spite of the huge financial investment made by the Nigerian government in the oil and gas industry of the economy, it has not resulted in significant benefits for most Nigerians. The local content (LC) in the industry is still very low as over 60% of the major activities, e.g exploration, drilling, production, well intervention and service provision remain primarily controlled and managed by multi-national oil companies. Only minor contract have been awarded to local contractors. Several challenges, ranging from infrastructural development, political stability, Good investment climate, project Financing, Transparency, High Educational Standards, Legal Policy, Resource Management, Research & Development, Fiscal Policy, Environmental Policy are some of the factor impeding the set target by the Federal Government to achieve 70% in 2010, its local content drive in the oil and gas industry. This paper identifies the challenges for the ineffective implementation of the Nigeria content policy through the use of Questionnaires and developed a framework that will address holistically the factors needed to promote active participation of Nigerians in oil and gas activities without compromising standards in order to stimulate growth of indigenous capacity. Countries that have achieved success through local content development were also highlighted in this paper.

KEYWORDS: Local Content, Infrastructure, Transparency, Corruption, Project Financing, Political Stability.

INTRODUCTION

The Oil and Gas Industry (OGI) in Nigeria plays a crucial role to the sustenance of the nation and fuels her economic and development activities. The industry has been widely described as the nation's live wire and literature abounds on its role and significance in Nigeria (Atakpu, 2007). An estimated \$8 billion is spent annually on servicing the industry in operations such as fabrication, Engineering procurement, Construction, Front End Engineering Design (FEED), Conceptual designs and Seismic Studies. This figure is projected to hit \$15 billion within the next few years (Business Day, 2008). Regrettably, despite these huge sums of money spent in servicing the industry, only a very little proportion of the accruable profit is spent in Nigeria. Majority of the amounts are spent abroad, where most of the equipment are manufactured, and providing employment opportunities for citizens of other countries. The major reason for the situation has been attributed to low local content, which is a situation where most of the service contracts are awarded to foreign firms because local indigenous firms lack the requisite skills, technical expertise, manpower and production capacity and capability to compete favourably. The low Local Content in the Nigerian OGI results from : Deficient Capitalization arising from the tendency of Nigerian entrepreneurs to operate as 'one man' business; Capital and Structural deficiencies associated with poor training and low managerial ability; and inability to attract funds due to lack of suitable collateral and positive corporate image. Aneke, (2002) gave reasons for low Local Content in Nigeria to include: low technological capacity; lack of funding from financial institutions; inadequate infrastructure; unfavourable business climate; lack of partnering between indigenous contractors and technically competent foreign companies. However, the country is concerned that the benefits of this massive industry are not being shared out fairly amongst the Nigerians themselves and there was an urgent need to reverse this trend. To address this problem, the Federal Government of Nigeria in the early 2000 introduced the Local Content (LC) policy, christened Nigerian content (NC) and it was primarily aimed at enhancing increased participation of local indigenous firms in Oil and Gas Industry.

BACKGROUND

The Nigerian Oil and Gas sector plays a very dominant role in the nation's economy with over 90% of the nation's foreign exchange earnings coming from the sale of crude oil and about 65% of government budgetary revenues. Nigeria has about 36 billion barrels of crude oil reserve and 19.2 billion cubic metres of natural gas. It is estimated that the country has realized about 600 billion US dollars since 1956. When it first discovered oil in commercial quantity in Oloibiri, present day Bayelsa State, from oil and gas (Atakpu, 2007).

Indeed, over the years, oil has become the main stay of the Nigerian economy as the earnings from crude oil are used for infrastructure developments as well as improving the socio-economic well being of Nigerians. Activities in the oil and gas industry are classified into the Upstream and Downstream sector. The Upstream oil and gas activities involve operations in the areas of Exploration and Production (E&P) of oil as well as services that lead to these E & P activities i.e. from drilling the initial appraisal wells, through Seismic data processing, to drilling of wells and extraction of crude oil, Condensates, natural gas or associated gas from well (Nwosu *et al*, 2007). The Nigerian government is a major investor in the production activities of the Upstream sector and her activities are co-ordinated mainly by the NNPC, which has shares in the major upstream activities. The Downstream oil and gas activities involve refining the products from crude oil, and distribution until it reaches the final consumer. There are three main functional areas within the downstream sector-refining, distribution and marketing of petroleum products. The downstream sector is of strategic importance to the nation, as petroleum products constitute the key source of energy used for various purposes (Obasi, 2003).

The crude oil industry in Nigeria began in 1908 when the associated exploration activity was carried out by the German Bitumen co-operation. In 1937, an oil prospecting licence (OPL) was granted to shell-D'Arcy's exploration organization. In 1955, Mobil Exploration Nigeria Incorporated obtained concessions over the whole of the then Northern region of Nigeria. Crude oil was first found in commercial quantities at Oloibiri in the Niger Delta (1956) and further discoveries, at Afam and Boma, established Nigeria as a significant oil exporting country with its first shipment of 5000 barrels of crude oil being sold on the international market ensuing in 1958. (Federal Ministry of Petroleum Resources, 2003).

However, despite being a major oil producing country for decades, and accruing huge revenues from oil, Nigeria is ranked as one of the poorest countries in the world. Also, the lack of equitable distribution of the oil wealth and environmental degradation resulting from exploration activities have been identified as the key factors aggravating actions from environmental rights groups, inter-ethnic conflicts and civil disturbances. Apart from these oil wealth failures, there was problem of using foreign expatriates and services and the cause for this was attributed to the issue of low local content in the OGI. There was therefore an urgent need to deregulate and liberalise the downstream sector to enable indigenous entrepreneurs with experience in the oil and gas sector to come in and fill the gap that was evident. As such in the early 2000s, the government decided it was time to introduce the local content policy.

NIGERIAN LOCAL CONTENT DEVELOPMENT

The local content development is an initiative on the part of the Nigerian government to develop local capacity building in the oil and gas industry to enable Nigerians to take a more pro-active role in their largest industry. It is seen as the utilization of the Nigerian human material resources in the exploitation and exploration of the Nigeria hydrocarbon resources. The local content development is to ensure that the percentage of locally produced materials, personnel, goods and services rendered to the industry are increased thereby generating more employment and economic empowerment. Nigeria is reputed to be among the world's leading countries in hydrocarbon production, currently ranked among the first 10 leading producers of oil and gas. The country exports about 2.0 million barrels per day with a daily production of about 2.4 million.

The table 1 below shows the average prices of Nigeria's Bounty light (1980-2005).

Table 1: Average Prices of Nigeria's Bonny Light.

Year	Bonny light (Price \$)	Year	Bonny light (Price \$)
1980	38.82	1993	16.04
1981	37.06	1994	16.20
1982	35.60	1995	17.36
1983	30.00	1996	21.59
1984	29.19	1997	19.40
1985	28.15	1998	12.77
1986	14.16	1999	N/A
1987	18.53	2000	N/A
1988	15.09	2001	24.53
1989	18.61	2002	25.04
1990	24.04	2003	29.20
1991	20.50	2004	38.73
1992	20.00	2005	55.43

Source: CBN Publication various Issues

From the table above, we observed that Nigeria's oil and gas wealth has not been truly translated into meaningful development largely due to poor leadership and corruption.

After fifty years of oil production in Nigeria, we have seen degradation of our environment, destabilization of our policy, absence of cohesion arising from jostling for a slice of the oil resource, education sector and power supply has become a national embarrassment.

At this juncture, we examine the Local Content development in Nigeria's oil and gas industry. The Nigerian content development is defined by (NNPC, 2005) as,

The quantum of composite value added or created in the Nigerian economy through the utilization of Nigerian human and material resources for the provision of goods and services to the petroleum industry within acceptable quality, health, safety and environmental standards in order to stimulate the development of indigenous capabilities.

The NNPC vision for local content development is to transform the oil and gas industry into the economic engine for job creation and national growth by developing in the country capacity and indigenous capabilities. In this way, greater proportion of the work will be done in Nigeria with active participation of all sectors of the economy and ultimately Nigeria will be position as the hub for service delivery within the West African Sub-region and beyond.

A number of key frameworks here been put in place to coordinate national efforts to achieve the Governments Nigerian content targets and objectives, these include:

A national vision and action plan included in a policy package.

A legal device in the form of an Act, statute or Regulation to give it normative force.

A draft Nigerian Content Development Bill has been submitted by NNPC to the Federal Government.

An Organizational framework which sees to the implementation of the policy.

A Nigerian Content Division (NCD), headed by a Group General Manager was set up in March 2005 under the Group managing Director's office of the NNPC.

A Nigerian Content Consultative Forum (NCCF) was also inaugurated with an eight sectors working committees covering Fabrication, Engineering, Manufacturing, Banking & Drilling as well as Logistics Services.

Introduction of a Joint Qualification system (JQS) to facilitate the E&P contracting process in the oil and gas industry.

MATERIALS AND METHODS

The challenges facing Nigerian local content- The data in this study was obtained from Questionnaire replies received from 100 participants of why there are still challenges facing Nigerian local content in oil and gas industry. The authors used the Simple random Sampling technique, by selecting/picking positive responses made by the participants. A summary of their opinions now follows:

- Lack of a stimulating government regulatory framework.
- Deficient infrastructural facilities.
- An improved educational infrastructure is needed.
- Lack of adequate finance, insufficient pertinent technical expertise and unhelpful multi-national company's attitude are impediments that should be removed.
- Corruption and mismanagement or opaque accountability.
- Unstable and even volatile political and economic environments in Nigeria.
- Lack of appropriate materials.

RESULTS AND DISCUSSION

The Developed Framework That Will Address Holistically The Factors Needed To Promote Active Participation Of Nigerians In Oil And Gas Activities Include:

Infrastructural Development: The infrastructure in Nigeria cannot presently support industrial growth, some of the infrastructural challenges include, insufficient power supply, poor transportation and telecommunication network, in existent public utilities, just to mention a few. Countries like Norway were a highly industrialized economy before oil was discovered, meaning that all infrastructures necessary for a society to function effectively were all in place. This contributed to the suitable development of their petroleum industry.

Political Stability: Is important for industrial growth, Nigeria has a young democracy since May, 1999 and since then, there have been frequent attacks on foreigners and foreign interests in the Niger Delta in the last few years. This is certainly detrimental to industrial growth.

Good Investment Climate: The investment climate is very poor in Nigeria, beside poor infrastructure, adequate housing is not affordable, improper health care and a poorly motivated crime fighting unit. If not addressed, those challenges don't encourage foreign direct investment.

Projects Financing: The financial sector has been undergoing reforms to make the banking industry globally competitive. We hope that the recent reforms in the Nigerian banking industry have put the financial institution in a good position to finance large projects in the country.

Transparency: This is crucial to economic growth while corruption does not support any economic growth, it rather reduces confidence in both public and private institutions. Nigeria has a legacy of widespread corruption and absence of transparency. The government is trying to tackle the issue of corruption to investigate and prosecute corrupt persons.

High Education Standards: The standard of education in Nigeria is not very high and is characterized by incessant industrial action by the academic unions.

Legal Policy: Laws and acts guiding regulation of petroleum activities are to be treated with seriousness and speed, and must also be enforced. Nigerian oil and Gas industry content development bill, 2010 has been enacted.

Licensing System: This is the procedure by which oil blocks are allocated to firms for development. Production sharing agreements, signature bonuses are in use in Nigeria. The government should encourage bidding involving the extent by which local content will be enhanced by the prospective company.

Resource Management: The effective management of resources is a major challenge. The government should ensure proper resource management to enable funds generated to act as a buffer which provides greater flexibility in economic policy should oil prices or activity in the mainland economy decline.

Research & Development: There is no R & D collaboration between the multinational oil companies operating in Nigeria and the universities and other research institutions. The Korean policy succeeded through the implementation of Science, Technology and Innovation (STI) policy. They took into consideration the importance of R&D which is also a part of STI policy.

Environmental Policy: There have been huge losses of arable land to oil spills from petroleum activity, and loss of livelihood security occasioned by oil-related environmental devastation. It is necessary to maintain the environment as much as possible to its original condition after exploration activities in the area.

CONCLUSIONS

This paper has revolved around the current situation concerning the proper implementation of the Nigerian local content policy, reasons and challenges. This paper underlines the concerns of the ineffective implementation of the Nigerian content policy and emphasizes that if the current trend is not addressed it would be difficult for the government to achieve the set target of 70% implementation by 2010. Although our intention is not to generalize from this study, nonetheless, we provide useful insight for future direction of the policy. Furthermore, based on the developed framework of this study, we conclude that if fully adopted and handled holistically, the set target will be achieved by the government.

RECOMMENDATIONS

This paper recommends that the developed framework should be fully addressed by the Nigerian government so as to promote proper and effective implementation of the Nigerian content policy which will aid in achieving industrial growth. We therefore, highlight the need for closer supervision and monitoring of the policy guidelines by regulatory authorities/committees set up by the government with their responsibility of ensuring proper implementation of the Nigerian Content policy.

ACKNOWLEDGEMENT

The authors are grateful to the management of NNPC for access to some of their vital information used in this study. We are also thankful to Phoenix Computers for the production of this manuscript.

REFERENCES

- Aneke, P. (2002): "The role of major operators in the development of local content in the Nigerian oil and gas industry". A paper delivered during a national seminar on the dynamics of equipment leasing and contract financing for local contractors in the oil and gas sector. Port Harcourt, Nigeria.
- Atakpu, L. (2007): Resource-based conflicts; challenges in oil Extraction in Nigeria. A paper presented at European conference hosted by the German EU Council presidency (March 29 & 30) Berlin, Germany.
- Business Day, Nigeria (2008); Several editorial comments.
- Central Bank of Nigeria, (2007). Economic and Financial Review, Vol. 35, December, N0 3
- Federal Ministry of Petroleum Resources (2003): "Nigeria Oil and Gas Industry-Enhancing capacity building". OTC, Skkor Services Ltd, Lagos, Nigeria. pp. 12-16, 71-75.
- NNPC, (2005): Partnering for sustainable growth of Nigerians Oil and Gas Industry, 1 (1).
- Nwosu, H.U., Nwachukwu, I.N., Ogaji, S.O.T. and Probert, S.D. (2007): Local involvement in harnessing crude oil & natural gas in Nigeria. *Applied Energy*, volume 83, issue 11, PP 1274-1287.

Omenikolo,I.A. And Amadi, R.O: Continental J. Renewable Energy 1: 15 - 20, 2010

Obasi, N.K. (2003): Foreign Participation in the Nigerian Oil Gas Industry. Sourced online:
<http://www.onlinenigeria.com/link/adv.asp?>

Odulari, G.O.(2008): Crude oil and the Nigerian Economic performance . Oil and Gas Business.
<http://www.ogbus.ru/eng/>.

Received for Publication: 18/11/10

Accepted for Publication: 17/12/10

Corresponding Author

Omenikolo,I.A.

Department of Physics/Electronics, Federal Polytechnic Nekede,Owerri.

alexomeni@yahoo.Com